

ITC REMEDIAL ORDERS – THE CASE FOR CONFORMITY WITH PATENT INJUNCTIONS

As Published in the ITCTLA Section 337 Reporter
Volume XXXV-2011

Paul M. Bartkowski¹
Adduci, Mastriani & Schaumberg LLP

I. INTRODUCTION

The U.S. International Trade Commission ("Commission") is an increasingly popular venue for patent disputes due to the rapid pace of proceedings and statutorily prescribed injunctive relief. Today, patent disputes often involve consumer-electronic devices, which are concurrently decreasing in size and increasing in complexity at a blistering pace. This makes it increasingly difficult to determine: (1) whether a device infringes in the first instance; and (2) whether subsequent modifications render the device non-infringing. In light of these technological developments, this article proposes that the time has come for the Commission to provide more clarity in its exclusion orders and cease and desist orders.

In particular, the Commission should move away from the standard language in its orders directed to all "products that infringe" or are "covered by" certain patent claims. This broad language begs the question whether a non- adjudicated product is infringing and gives no guidance as to who determines what products infringe, what procedures govern such determinations, and how such determinations are reviewed. The current system requires the Department of Homeland Security's Bureau of Customs and Border Protection ("Customs") to determine infringement in some instances, and the Commission in others, creating confusion as to which is the proper forum. Further, these two bodies have varying procedures and avenues for judicial review, creating additional confusion. The Commission could remedy this problem by more clearly specifying what products are covered by its orders.

Specifically, the Commission should specify that its orders cover only: (1) the products determined to infringe in a Commission investigation; and (2) products that are no more than colorably different from those products with respect to the relevant limitations in the infringed patent claims. Doing so would provide a clear framework for determining whether products should be excluded. Specifically, if the infringing elements of a product have been significantly modified, then the product would not be covered by the exclusion order, unless the Commission later determines that the modified product infringes the relevant patent claims.

This framework would be easier for Customs and the Commission to apply and would be more easily understood by parties to the underlying investigation and the public. It would also bring Commission orders in line with district court rules governing injunctions and contempt proceedings. Commission practitioners could then analogize district court case law and injunction practice to questions surrounding Commission orders.

II. BACKGROUND

19 U.S.C. § 1337 ("Section 337") authorizes the Commission to conduct proceedings relating to imported goods that are accused of infringing United States patents. Section 337(a)(1) provides that it is unlawful to import, sell for importation, or sell after importation articles that, *inter alia*, infringe a valid and enforceable United States patent. Proving patent infringement is therefore often critical in Section 337 investigations, which makes them similar in many respects to district court patent litigation.

A. Commission Remedial Orders

If the Commission finds a violation of Section 337, Section 337(d) provides that "it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States," unless consideration of four statutory "public interest" factors weighs against such relief. Section 337 further provides that the exclusion from entry is carried out by notifying the Secretary of the Treasury, who "shall, through the proper officers, refuse such entry."²

Section 337(f) also provides the Commission authority to issue cease and desist orders against parties that violate Section 337 "[i]n addition to, or in lieu of," issuing an exclusion order under Section 337(d). Like Section 337(d), Section 337(f) directs the Commission to consider the four statutory public interest factors before issuing cease and desist orders.

Section 337(e) provides the Commission authority, after considering the statutory public interest factors, to issue either an exclusion order or cease and desist order *during* an investigation if "the Commission determines that there is reason to believe that there is a violation of this section[.]" If this preliminary relief is granted, the products at issue are entitled to entry under bond in an amount set by the Commission. If a violation is found the bond is forfeited to the complainant, otherwise it is returned to the respondent.

In practice, if the Commission finds a violation of Section 337, it typically issues an exclusion order. This can be a limited exclusion order that excludes products "imported by any person violating" Section 337 under Section 337(d)(1), or a general exclusion order under Section 337(d)(2). The Commission also typically issues cease and desist orders against respondents that have a "commercially significant domestic inventory."³

The Commission's exclusion orders and cease and desist orders typically contain broad language aimed at preventing future violations of Section 337. The Commission's exclusion orders direct Customs to exclude "articles that infringe" or "articles covered by" the patent claims for which a violation was found.⁴ Similarly, cease and desist orders define the prohibited activities in terms of "articles that infringe" or are "covered by" the relevant claims.

B. Customs' Role in Enforcing Commission Orders

Customs is directed by Commission exclusion orders to exclude the goods described. While Customs has its own regulatory authority under 19 C.F.R. § 133 to exclude goods it determine infringe valid U.S. trademarks or copyrights, it does not have such authority relating to patents. Commission exclusion orders stemming from patent-based investigations therefore provide Customs its only authority to exclude goods that infringe United States patents.

Historically, Customs has stated that it did not have the authority to make infringement determinations relating to Commission orders. Rather, Customs would meet separately with each of the parties to the Commission investigation to determine which products should be covered by the exclusion order, and exclude the products at issue in the Commission proceeding. Later, Customs began meeting informally with the complainant and respondent together to determine which products were covered by the exclusion order.

Customs has recently become less reluctant to make infringement determinations, and now does so pursuant to its procedures governing ruling requests under 19 C.F.R. § 177.⁵ Rule 177 provides for issuance of "interpretive decision[s]" or "rulings" relating to any Customs transaction. Customs applies this rule when it receives a request to determine whether an importer's product is covered by an exclusion order under Section 337. In order to make that determination, Customs must decide whether the product infringes the relevant patent claims.

Under Customs' procedures governing Rule 177 requests, Customs rulings may be modified or revoked within sixty calendar days of their issuance "by giving written notice of the modification or revocation."⁶ After sixty days have passed, Customs' rules require that Customs provide notice and solicit comments under Rule 177.12(b) regarding the modification.

Ruling requests at Customs are generally not covered by the administrative protective order entered by the Commission pursuant to Section 337(n) and are also not required to be served on the complainant to the Commission investigation. Because Customs' rules provide that Customs will treat "commercial information" as "privileged or confidential" and not subject to disclosure except in the limited circumstances described in Rule 103.35, Customs' rules effectively prevent disclosure of, for example, schematics and technical details of a work-around device at the heart of a ruling request. Such requests, and the rulings thereon, are thus often largely, if not entirely, confidential, preventing disclosure thereof to the public and to the complaining party in the underlying Commission investigation. Customs' rules provide that its rulings are published in the Customs Bulletin or otherwise made available for public inspection within ninety days of issuance, with confidential information redacted.⁷ Parties interested in Customs rulings, such as the Commission complainant, are therefore often unaware of a ruling request or the ruling itself until after the sixty-day period for modification without notice and comment has passed.

The relative opacity and unique nature of Customs procedures, coupled with the vague language in Commission orders, renders the interpretation of exclusion orders confusing and frustrating to Commission litigants. Moreover, Customs' restrictive rules regarding confidential information renders ruling requests largely, if not entirely, *ex parte*, depriving Customs and

affected parties of the benefit of the adversarial proceedings used by the Commission and district courts to make patent infringement determinations.

C. Commission Enforcement Proceedings

Where Customs allows products to enter the United States, a complainant may bring an "enforcement proceeding" at the Commission. Although Section 337 does not provide the Commission explicit authority to enforce its orders, the United States Court of Appeals for the Federal Circuit, in *Vastfame Camera v. ITC*, concluded that the Commission has authority to conduct such proceedings under its general authority to conduct investigations under Section 337(a).⁸ Accordingly, Commission enforcement proceedings provide respondents the same procedural protections and judicial review as Commission investigations conducted under Section 337.

Notably, the Commission is not bound by any formal or informal decision by Customs to allow product entry under an exclusion order. Thus, there is a potential for receiving conflicting decisions from Customs and the Commission regarding whether products are covered by an exclusion order. For example, in *Certain GPS Devices & Products Containing Same*, Inv. No. 337-TA-602, after Customs excluded goods containing GPS chips manufactured by a non-respondent, the Commission issued an advisory opinion concluding that the exclusion order covered only GPS devices containing chips manufactured by respondent SiRF.⁹ Also, in *Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406, the Commission issued civil penalties for the importation of goods that were the subject of a Customs ruling that the goods were not covered by the exclusion order.¹⁰

The *Lens-Fitted Film Packages* enforcement opinion demonstrates the risk to an importer of the potential for conflicting decisions. In such cases, even if Customs deems a product not covered by a Commission exclusion order, the importer or distributor risks an adverse decision in a Commission enforcement proceeding regarding a cease and desist order, which would result in civil penalties for violation of the order under Section 337(f). For each day on which importation or sale occurs in violation of the order, the Commission can assess a penalty of up to \$100,000 or twice the domestic value of the articles, whichever is greater.¹¹

III. DISCUSSION

As the background demonstrates, the current system for determining the products subject to Commission orders is fraught with confusion. This article advocates including more specificity in Commission orders, which would clarify their scope and would allow for determinations involving new products, with features not previously compared to specific claim limitations, to be made in enforcement proceedings at the Commission. The Commission provides a better forum than Customs for such determinations due to its adversarial procedures, its existing protective orders, its APA procedural protections, and a defined method of judicial review. Further, as discussed below, providing more specificity in Commission orders would also make exclusion orders consistent with injunctions issued by district courts in patent cases. By ensuring consistency between Commission orders and

district court injunctions, the developed body of law governing injunctions can be applied to Commission orders, providing further clarity and guidance for application of those orders.

A. Providing More Specificity in Commission Orders Would Add Clarity to the Scope of Those Orders and the Procedures Governing Them

The Commission's standard orders are directed to products "that infringe" certain patent claims, but the increasing complexity and decreasing size of products considered by the Commission makes these orders too difficult to interpret and apply. This is reflected by the fact that the Commission often issues final determinations where the analysis construing the claims and determining infringement can span hundreds of pages, yet the Commission's order provides only one sentence regarding the products it covers. Moreover, oftentimes the Commission's infringement analysis relies on the inner workings of semiconductor chips or other electronic devices, features only visible or discernible upon a detailed inspection and analysis of the relevant products.

Explicitly providing that Commission orders only cover those products found to infringe during the Commission investigation, and products with only colorable distinguishing features, will make clear which products the orders cover, and on what basis. Where a respondent substantively changes its product and believes that the change renders the product non-infringing, the respondent can certify to Customs that it has made such a change. Customs, after confirming that such a change has taken place, will then not have to make the difficult assessment of whether the change actually avoids infringement. Rather, at that point, Customs will recognize that the redesigned product is more than colorably different from the product found to infringe by the Commission and is thereby not covered by the order. The products would then be allowed entry until the complainant brings an enforcement proceeding in which the Commission determines that the change does not avoid infringement and, indeed, might be so specious as to warrant civil penalties for violation of a cease and desist order.

This process would remove the ambiguity surrounding how a new product is treated by Customs because all patent infringement determinations would be conducted under the procedural and legal structure provided by Section 337 and the Commission's rules. Because the Commission regularly conducts administrative trials on patent issues, the Commission is well suited for resolving such difficult infringement questions. Moreover, because Commission procedures largely mirror those in a district court, most patent practitioners are at least generally familiar with the Commission's procedures. Thus, in addition to the greater transparency and procedural protections provided by the Commission, deciding patent infringement questions exclusively at the Commission provides more clarity because practitioners can apply many concepts from the well-developed case law governing patent law.

Finally, Section 337 provides a more orderly structure for judicial review of infringement determinations than that which Customs provides. Currently, an importer can file a Customs protest with the Court of International Trade ("CIT") where a product is excluded pursuant to a Commission order, but a patentee has no avenue to appeal an adverse Customs ruling in light of that court's recent decision in *Funai Elec Co. v. United States*.¹² Legislation providing the CIT with jurisdiction to hear patentees' appeals would be an ill-fitting solution,

however, because the CIT has little experience dealing with difficult issues of patent infringement, particularly in comparison to the Commission. The better course, therefore, is to have infringement determinations made exclusively at the Commission.

While it may appear that this change would allow for circumvention of Commission orders, those concerns are likely ill-founded. In practice, there may end up being little difference in what Customs excludes in the absence of a Customs ruling under Rule 177. By necessity, Customs already likely relies on the model numbers and names of specific products found infringing in the investigation, regardless of the broad language in the exclusion order. The change would merely make clear that the Commission, and not Customs, is the proper agency to determine whether the new product infringes.

There is a related argument that an importer could make trivial changes that do not affect the infringement analysis to allow for importation while the Commission is forced to conduct a full enforcement proceeding. In practice, however, there are simple ways to prevent this. For example, Customs could require supporting documentation to demonstrate that a change made to a product actually relates to a specific limitation within a patent claim. Even if Customs deems a change to be significant, if in an enforcement proceeding it appears that the change does not alter the infringement analysis, the Commission could impose a temporary exclusion order under Section 337(e). Thus, the Commission could bar the redesigned product until the enforcement proceeding has concluded. Moreover, the Commission regularly conducts its administrative trials in a fraction of the time such proceedings take in district court; it is therefore likely that, where the changes to the products are minor, the Commission could conduct its proceedings in a matter of months, which would be roughly the same amount of time it takes for a Customs ruling to go into effect. This would be particularly true if the Commission used its temporary exclusion authority where appropriate.

Finally, if gamesmanship becomes a problem due to more specific orders, the Commission could more regularly issue cease and desist orders. The statutory civil penalties for violating cease and desist orders would deter respondents from violating Commission orders through trivial changes to products, i.e., changes that do not relate to the elements of the relevant patent claim.

It therefore appears that there is little downside to the Commission explicitly limiting its orders to products adjudged to infringe and products that are substantively indistinguishable from those products with respect to the relevant patent claims. As discussed below, this proposed modification would also provide the benefit of harmonizing the scope of district court patent injunctions and Commission orders.

B. The Proposed Change Would Eliminate Differences in Scope Between Commission Exclusion Orders and District Court Injunctions

The Federal Circuit has held that district court injunctions directed to "infringing devices" or "device[s] covered by" certain patent claims violate Federal Rule of Civil Procedure 65(d).¹³ Accordingly, injunctions are limited to products for which the district court has found

infringement. In contrast, as discussed above, it is standard for Commission orders to contain such broad language.

To determine which products are covered by a district court infringement determination, the Federal Circuit applies the test set forth in *Acumed LLC v. Stryker Corp.*, which asks whether a product is "essentially the same" as one of the products found to infringe:

[C]laim preclusion does not apply unless the accused device in the action before the court is "essentially the same" as the accused device in a prior action between the parties that was resolved by a judgment on the merits. Accused devices are "essentially the same" where the differences between them are merely "colorable" or "unrelated to the limitations in the claim of the patent."¹⁴

Thus, district court injunctions must explicitly cover only those devices determined to infringe and devices with changes unrelated to the relevant patent claim limitations. To require the same specificity of Commission orders would bring the scope of Commission orders in line with district court injunctions. Indeed, there is reason to believe that the rules governing injunctions also apply to the Commission. First, the Supreme Court has stated that "the specificity provisions of Rule 65(d) are no mere technical requirements[,] but rather "the Rule was designed to prevent uncertainty and confusion on the part of those faced with injunctive orders, and to avoid the possible founding of a contempt citation on a decree too vague to be understood."¹⁵

The Supreme Court also noted that, without requiring specificity in injunctive orders, "it is impossible for an appellate tribunal to know precisely what it is reviewing."¹⁶ The Supreme Court has applied this principle to at least one administrative agency already, holding that the National Labor Relations Board's authority regarding unfair labor practices does not extend to restraints of unlawful practices it has not found to have occurred.¹⁷ Thus, the general rules requiring specificity in injunctions may indeed apply at the Commission.¹⁸

Limiting Commission orders to the articles under investigation would eliminate concerns that the orders are impermissibly vague or overbroad and would render the orders similar to their district court counterparts. That similarity would allow Commission practitioners to draw on analogous district court case law to determine what is covered by Commission infringement determinations and resulting orders, thus providing additional clarity.

IV. CONCLUSION

Modifying Commission orders to cover those products that the Commission has determined infringe the patents at issue would provide significant benefits with very little downside. First, it would make clear to parties and practitioners that the Commission is responsible for determining which products infringe the patent(s) in an exclusion order, and that Customs is responsible for determining whether imported goods have been determined to infringe. The proposed modification would prevent inconsistent procedures, provide avenues

for appellate review, and perhaps most importantly, would prevent inconsistent judgments between the two agencies. Furthermore, the modification would harmonize the scope of Commission orders with injunctions issued by district courts. In doing so, the Commission could ensure that the scope of its orders is legally sound, while allowing practitioners to draw analogies between case law regarding patent injunctions issued by district courts and remedial orders issued by the Commission.

¹ Mr. Bartkowski is an associate at the law firm of Adduci, Mastriani & Schaumberg LLP. Any opinions expressed in this article are his own and do not reflect any positions of Adduci, Mastriani & Schaumberg LLP or the firm's clients. The author thanks summer associate Dallin Glenn for his assistance in preparing this article.

² While Customs and its officers are no longer part of the Treasury Department, Customs has maintained the role of enforcing exclusion orders despite now being part of the Department of Homeland Security.

³ *Certain Inkjet Ink Supplies & Components Thereof*, Inv. No. 337-TA-691, Comm'n Op. on Remedy, the Public Interest, & Bonding (Pub. Version), at 6 (Jan. 28, 2011).

⁴ See, e.g., *Certain Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers & Prods. Containing Same*, Inv. No. 337-TA-661, Limited Exclusion Order and Cease and Desist Orders (July 26, 2010) (involving "memory controller products and products incorporating a memory controller that are covered by one or more of [the infringed claims]"); *Certain Optoelectronic Devices, Components Thereof, & Prods. Containing Same*, Inv. No. 337-TA-669, Limited Exclusion Order and Cease and Desist Order (July 12, 2010) (involving "optoelectronic devices, components thereof, and products containing the same that are covered by one or more of [the infringed claims]"); *Certain MEMS Devices & Prods. Containing Same*, Inv. No. 337-TA-700, Limited Exclusion Order (May 10, 2011) (excluding "MEMS devices and products containing the same that infringe one or more of claims 2-6 of U.S. Patent No. 7,364,942").

⁵ See, e.g. Customs Ruling H025822 (Nov. 23, 1999) (analyzing infringement of a product that "was not analyzed by the ALJ or the Commission").

⁶ 19 C.F.R. § 177.12(b).

⁷ 19 C.F.R. § 177.10(a), 177.8(a)(3).

⁸ *VastFame Camera v. ITC*, 386 F.3d 1108 (Fed. Cir. 2004).

⁹ Comm'n Advisory Op. (Pub. Version), at 5 (Apr. 20, 2010).

¹⁰ *Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406 (Consolidated Enforcement and Advisory Opinion Proceedings), Comm'n Op. (Pub. Version), at 19-20 (June 24, 2003) ("[T]he Commission is the sole arbiter of whether its [cease-and-desist orders] are violated[.]").

¹¹ 19 U.S.C. § 1337(f)(2).

¹² *Funai Elec. Co. v. United States*, 645 F. Supp. 2d 1351 (Ct. Int'l Trade 2009).

¹³ *See Int'l Rectifier Corp. v. IXYS Corp.*, 383 F.3d 1312, 1317 (Fed. Cir. 2004) ("The rule requires an injunction to prohibit only those acts sought to be restrained, which in this case are infringement of the patent by the devices adjudged to be infringed and infringement by devices no more than colorably different therefrom."); *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F. 2d 476, 479-80 (Fed. Cir. 1993) (vacating an injunction which "does not state which acts of [the infringing party] constitute infringement of the '318 patent" and "does not limit its prohibition to the manufacture, use, or sale of the specific infringing device, or to infringing devices no more than colorably different from the infringing device").

¹⁴ *Acumed*, 525 F.3d 1319, 1324 (Fed. Cir. 2008) (internal citations deleted) (emphasis in original).

¹⁵ *Schmidt v. Lessard*, 414 U.S. 473, 476 (1974).

¹⁶ *Id.* at 477.

¹⁷ *NLRB v. Express Publ'g Co.*, 312 U.S. 426, 433 (1941).

¹⁸ *But see Fed. Trade Comm'n v. Ruberoid Co.*, 343 U.S. 470, 473 (1952) ("[T]he [Federal Trade] Commission is not limited to prohibiting the illegal practice in the precise form in which it is found to have existed in the past.").